PRESIDENT'S FISCAL YEAR 2004 BUDGET WITH AN OFFICIAL OF THE U.S. DEPARTMENT OF THE TREASURY

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES

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PRESIDENT'S FISCAL YEAR 2004 BUDGET WITH AN OFFICIAL OF THE U.S. DEPARTMENT OF THE TREASURY

TUESDAY, FEBRUARY 4, 2003

U.S. House of Representatives,
Committee on Ways and Means,
Washington, DC.

The Committee met, pursuant to notice, at 2:08 p.m., in room 1100 Longworth House Office Building, Hon. Bill Thomas (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1721
January 28, 2003
No. FC–1

Thomas Announces Hearing on President's Fiscal Year 2004 Budget with an Official of the U.S. Department of the Treasury

Congressman Bill Thomas (R–CA), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing on President Bush's fiscal year 2004 budget proposals within the jurisdiction of the Committee. **The hearing will take place on Tuesday, February 4, 2003, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be heard from an official of U.S. Department of the Treasury. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

On January 28, 2003, President George W. Bush will deliver his State of the Union address in which he is expected to outline numerous budget and tax proposals. The details of these proposals are expected to be released on February 3, 2003, when the President is scheduled to submit his fiscal year 2004 budget to the Congress.

The Treasury Department plays a key role in many of the areas of the Committee on Ways and Means' jurisdiction, including taxes and customs.

In announcing the hearing, Chairman Thomas stated: "The President's budget will include tax and other proposals related to Treasury Department functions within the jurisdiction of the Committee on Ways and Means. I look forward to receiving the President's budget and discussing his proposals."

FOCUS OF THE HEARING:

The Treasury official will discuss the details of the President's budget proposals that are within the Committee's jurisdiction.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. Due to the change in House mail policy, all statements and any accompanying exhibits for printing must be submitted electronically to *hearingclerks.waysandmeans@mail.house.gov*, along with a fax copy to (202) 225–2610, in Word Perfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Any statements must include a list of all clients, persons, or organizations on whose behalf the witness appears. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman THOMAS. If Members and guests could find their seats, please.

Thank you. Good afternoon. We welcome Secretary Snow in his first appearance not only before the Committee on Ways and Means as Secretary of the U.S. Department of the Treasury, but also before the Congress. We look forward to hearing from you; and, more importantly in the long run, we look forward to working with you.

The President has proposed an economic growth and jobs package among a number of other issues that are under the jurisdiction of this Committee. Our economy is on the right track, but clearly we need to act to increase individual income and encourage businesses to create jobs and entrepreneurs to take risks. I believe we must act soon.

In recent times, taken tax action which has had a very positive fiscal impact. I believe that the Committee, if it is diligent in its work, can produce suggested changes to the Tax Code that may also have a considerable positive effect on the economy.

To that end, the Chair would indicate to Members that the Chair intends to introduce legislation which would be the President's proposal and do so prior to the end of February. The Chair then intends to hold hearings through the first 2 to perhaps 3 weeks of March. The Chair would extend to the Ranking Member and to all other Members suggestions as to who would be witnesses. Clearly, our intent here is to hear the pros, the cons, and the alternatives, so that we may move forward as a Committee. Then, by the end of March, mark up legislation that the Chair anticipates would go to the Floor and pass the Floor of the House of Representatives prior to the beginning of April. The Chair intends this kind of vigorous schedule for the purpose of making law, if possible, as soon in the calendar year of 2003 as possible.

The other issues that will appear before us are obviously important. One of the things the President proposed is the consolidation and simplification of savings vehicles for Americans. We have had some significant bipartisan initiatives in that area, and I look forward to Members of this Committee and the Administration, especially in the Treasury, examining ways in which we can encourage all Americans to save more.

Second, I do appreciate the Administration's candor in declaring in their budget that the international tax regime known as FSC–ETI, foreign sales corporation extraterritorial tax income, must be repealed and replaced with a simpler alternative in efforts to avoid trade retaliation and improve competitiveness for U.S. companies. By getting over the hurdle of the fact that it must be done creates an opportunity for us to shape much-needed legislation.

Third, the budget recommends the use of health insurance tax credits as a way to help the growing number of uninsured Americans. We made headway in last year's trade bill and are very interested to see how this approach might be more broadly applied.

Further, I do want to acknowledge the ongoing changes at Treasury. This Secretary now heads a Department in transition. Formerly of the Treasury, the U.S. Customs Service has relocated to the U.S. Department of Homeland Security and the former Agency of Alcohol, Tobacco and Firearms, whose functions have now been split between the U.S. Department of the Treasury and the U.S. Department of Justice. We will want to monitor these changes, especially in hearing the successes of these transitions, as well as, where and if we are needed to help.

Finally, Mr. Secretary, as a trustee of the Social Security and Medicare funds, we will be interested in your perspective on how we tackle the very serious demographic issue of resources versus needs or wants facing this country in these important programs.

I now recognize the gentleman from New York, the Ranking Member, for any comments he may wish to make.

[The opening statement of Chairman Thomas follows:]

Opening Statement of the Honorable Bill Thomas, Chairman, and a Representative in Congress from the State of California

Good morning. We welcome John Snow in his first appearance before the Ways and Means Committee as the Secretary of the Treasury. We look forward to working with you.

The President has proposed an economic growth and jobs package. Our economy is on the right track, but we must act to increase individual income and encourage businesses to create jobs and entrepreneurs to take risks. And we must act soon.

I would also like to take note of several other proposals. The first is the consolidation and simplification of savings vehicles for Americans. This is a bold proposal that we look forward to learning more about.

Secondly, I appreciate the Administration's candor in declaring in their budget that the international tax regime—also known as FSC/ETI—must be repealed and replaced with a simpler alternative that will avoid trade retaliation and improve competitiveness for U.S. companies.

Third, the budget recommends the use of health insurance tax credits as a way to help the growing number of uninsured Americans. We made headway on this front through last year's trade bill, and are interested in seeing how this approach may be more broadly applied.

Further, I would like to acknowledge the ongoing changes at Treasury. The move of the U.S. Customs Service to the Department of Homeland Security and the former agency, Alcohol, Tobacco and Firearms, whose functions are now split between Treasury and the Department of Justice. We will be interested in hearing about the success of these two transitions.

Finally, as a trustee of Social Security and Medicare, we'll be interested in your perspective on how we tackle the very serious demographic issues facing the country.

I now recognize the newest Republican Member on our panel, Rep. Eric Cantor of Virginia, to introduce the newest Secretary of the Treasury . . .

I now recognize the gentleman from New York, Mr. Rangel, for any opening statement he may have.

Mr. RANGEL. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. As we had stated earlier, we do hope that we will begin to try to address some of the problems facing our Nation in a bipartisan way. We are certainly going to try to do this.

We also recognize there was a time you shared our concern about the deficit, and we can appreciate the fact that the Administration obviously has a different view on that today. It does not go unnoticed that the suggested tax cut by the President and by you is moving the Nation away from getting revenues from dividends, that is, unearned revenues to the working class people. We have been accused of declaring class warfare, and I personally do believe that is exactly what we are going through as we see the people paying payroll taxes to Social Security and Medicare. These taxes are being used not to protect the Social Security system, but rather for a tax cut.

We also have a concern, even though we are Federal legislators, about the impact this tax cut is going to have on our States and local governments. So, it is really surprising that, before we even know the cost of this war that appears to be eminent from our viewpoint, that we are talking about a $1.5 trillion tax cut which was similar to the one we addressed earlier, and the relationship between that tax cut and our ever-increasing deficit.

So, I look forward to your testimony to see what optimistic spin you can give to this since most economists have agreed that, notwithstanding the size of our economy, that these deficits could prove to be devastating, especially as we look forward to the cost of the war that appears to be imminent. So, we look forward to working with you publicly and privately and hope we can reach some bipartisan agreement on the budget and the tax part of it. Thank you.

Chairman THOMAS. I thank the gentleman. Mr. Secretary, on behalf of the Committee, I welcome you. On a more personal note, I would like to recognize the gentleman from Virginia for an introduction.

Mr. CANTOR. Thank you, Mr. Chairman. I am delighted to welcome a fellow Virginian and my friend and my constituent, Secretary John Snow, to today's hearing.

Mr. Chairman, in the words of some of the country's most respected editorial writers, there are few minds better than John Snow's to help put America's economic engine back on track.

I think you will hear today that Mr. Snow holds sound fiscal views; and he is a proven leader, having served most recently for 14 years as President and Chief Executive Officer of the Richmond-based CSX Railroad Company. In my view, the President could not have picked a better individual to lead the Treasury Department.

Mr. Chairman, once again, thank you for allowing me to welcome the Honorable John Snow. It is my distinct pleasure.

Chairman THOMAS. Mr. Secretary, any written testimony you have will be made part of the record. You can address this Committee in any way you see fit. I will tell the gentleman, you need to turn the microphone on. They are very, very uni-directional. You need to speak directly into it.

STATEMENT OF THE HONORABLE JOHN SNOW, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Mr. SNOW. Thank you very much, Mr. Chairman, Ranking Member Rangel, all Members. It is a pleasure to be here for my maiden testimony in this new role that I assumed just yesterday. I hope my knowledge will expand rapidly in the weeks and months ahead, but I must say you probably have me at a pretty good disadvantage today.

Mr. Chairman, Ranking Member Rangel, distinguished Members of the Committee, I truly do welcome the opportunity to appear before you today to discuss the President's budget for the 2004 fiscal year.

Let me begin by offering some views on what I would regard as the essential background for the budget; and that, of course, is the state of the U.S. economy today and the President's economic growth plan, which in my view promises to create lots of new jobs and good jobs, promises to accelerate America's economic recovery, and to increase our growth for years to come, to put America on a higher growth path for the out years.

As every American knows, whether from having lost a job, or knowing someone who has lost a job, or worrying about losing their job, the economy took a turn for the worse beginning sometime in the summer of 2000. I remember it well as I looked at the carload and container load and truckload numbers at my old company, and saw them take a precipitous downward move.

By the time the President took office, there was a strong undercurrent running against the economy. The unprovoked and the unprecedented terrorist attacks of September 11 compounded a recession that by then was already well under way, while about that time we began to discover a series of abuses of trust of a major proportion by some corporate business leaders that slowed our economy and eroded confidence in our capital markets.

In response to this confluence of adverse events, the President acted decisively and in a bipartisan fashion with the Congress. He took the steps necessary to protect a Nation that was shaken and a Nation that had at that point, a fragile economy. In 2001, when relief was needed, he signed the most sweeping tax relief in a generation. As evidence of the damage became clearer, he acted again in March 2002, to further bolster the economy, again with your help.

These were precisely the right medicines at precisely the right time. These actions made the recession much shorter and shallower than it otherwise would have been. In fact, by most measures, the recession was the mildest since World War II.

In the face of extreme adversity, our economy, like our Nation, remains resilient today. Despite a sequence of economic slowdown, attack on the homeland, war in Afghanistan, and weakened investor confidence, the economy is recovering. As the President has stated, we can and we must do better. Relative success is not enough. Too many Americans are out of work today, too many Americans are insecure about their future, and the economy is not accelerating as fast as it should.

We must build on our proven strengths. We must continue to move toward policies that create more good jobs and raise the

standard of living for all. As long as there are Americans who want a job and Americans who cannot find one, the economy, in my view, is not growing fast enough. That is why the President's jobs and growth package is so important. Under the President's proposal, 92 million taxpayers and their families would receive a tax cut in 2003. A typical family of four with two earners and a combined income of about $39,000 would get tax reductions of about $1,100—and not just in 2003, but in every year thereafter, in each and every year thereafter. His plan will create hundreds of thousands of additional jobs by the end of this year and well over 1 million by the fourth quarter of next year.

This package will not only help Americans return to our economic potential, it will increase it. It will take us to a higher level of potential, creating a more abundant future with more good jobs and rising real wages. I believe that is what everyone in this room and everyone across America wants to see happen.

Before I turn to the budget, a word about deficits. We are concerned about deficits. We have to be. Deficits matter. They are never welcome. There are times such as these when they are unavoidable, particularly when we are compelled to address critical national needs.

It is important to remember, and this is a key point, that even without the President's economic growth and jobs package, without homeland security and the war on terrorism, without any of these, we would have deficits now. Are these deficits welcome? No. Are they understandable? Yes.

The surpluses we enjoyed were the product of a strong economy, not a weak one. We will not return, we will never return to economic strength by taxing our economy when it is struggling, any more than we would increase our Nation's security by failing to fund defense when we are threatened. The prescription for returning to balanced budgets, to getting on the right path, is straightforward: hold the line on spending and grow the economy. Give the economy the boost it needs.

This is the direction the President has chosen. It is a course to create jobs that last, permanent jobs. We are not going to let terrorism and its effects bring our Nation or our economy to its knees.

Finally, we should remember that the current deficits are small relative to the unique circumstances we face today and to the size of our economy as a whole. Even at their depth, they remain considerably below the typical levels following a recession over the last 30 years, and they begin a pronounced improvement after next year and will be declining both in absolute terms and in relative terms.

Clearly, we face new threats and challenges. Job creation and economic growth are keys not only to the near term but to our long-term success, as well. If we are to meet the threats of today and the challenge of tomorrow, we simply must have a strong economy.

In fact, we must seek a higher level of prosperity than any we have known before, one which puts us on a higher growth path and one which unlocks the fullest potential and talents of the American people. That means encouraging hard work, rewarding hard work, and creating opportunities for all Americans to work. These are the

values that have brought us to where we are today, and they are the ones that must lead us to a better tomorrow. We must also remember that our success and our example in this endeavor promises not only a brighter, better future for our people and our children, but for the rest of the world, as well.

The jobs and growth package, our new initiatives to promote savings, to promote health care coverage, to promote charitable giving, to encourage responsible energy production and improved compliance measures for the Internal Revenue Service are also important parts of these budget initiatives.

Mr. Chairman, I look forward to discussing that plan and the rest of the President's budget with you today. Thank you very much.

[The prepared statement of Mr. Snow follows:]

Statement of the Honorable John Snow, Secretary, U.S. Department of the Treasury

Chairman Thomas, Ranking Member Rangel, and distinguished Members of the Committee on Ways and Means, I welcome the opportunity to appear before you today to discuss the President's budget for fiscal year 2004.

Let me begin by offering my views on the essential background for this budget: the United States economy and President Bush's economic growth plan, which promises to create jobs, accelerate America's economic recovery, and increase our growth for years to come.

As every American knows by now—whether from having lost a job, knowing someone who has, or worrying about losing theirs—our economy took a turn for the worse beginning in the summer of 2000. By the time President Bush took office an undercurrent was running against the economy. The unprovoked and unprecedented terrorist attacks of September 11, 2001 compounded a recession that was well underway, while the discovery of serious abuses of trust by some corporate business leaders slowed our recovery from it.

In response to this confluence of adverse events, President Bush led decisively. Acting with Congress in a bipartisan fashion, he took the steps necessary to protect a shaken Nation and a fragile economy. In 2001 when relief was needed, he signed the most sweeping tax relief in a generation. As evidence of the damage became clearer, he acted again in March 2002 to further bolster the economy. These were precisely the right medicine at precisely the right time. These actions made the recession shorter and shallower than it would have been. In fact, by most measures it was the mildest since World War II.

In the face of extreme adversity, our economy, like our Nation, remains resilient. Despite a sequence of economic slowdown, attack on our homeland, war in Afghanistan, and weakened investor confidence, the economy is recovering. But as the President has stated, we can and must do better. Relative success is not sufficient. Too many Americans are out of work today, and too many Americans are insecure about their tomorrow.

We must build on the proven strengths of our economy. We must continue to move towards policies that will create more good jobs and raise living standards for all. As long as there are Americans who want a job and can't find one, the economy is not growing fast enough. That's why President Bush's jobs and growth package is so important. Under the President's proposal, 92 million taxpayers and their families would receive a tax cut in 2003. A typical family of four with two earners making a combined $39,000 will receive a total of $1,100 in tax relief, compared to the taxes they paid in 2002, under the President's plan—and not just this year, but in each and every year after. And his plan will create hundreds of thousand of additional jobs by the end of this year and well over a million more by the end of next year.

The package will not only help America return to its economic potential, it will increase it, creating a more abundant future with more good jobs and rising real wages. I believe that is what everyone in this room and across America seeks.

Before I turn to the budget, a word about deficits. Deficits matter. They are never welcome. But there are times, such as these, when they are unavoidable, particularly when we are compelled to address critical national needs. It is important to remember, even without the President's economic growth and jobs package, home-

land security, and the war on terrorism, we would have deficits now. Are these deficits welcome? No. Are they understandable? Yes.

The surpluses we enjoyed were the product of a strong economy, not a weak one. We will not return to economic strength by taxing our economy when it is struggling, any more than we would increase our Nation's security by failing to fund its defense when it is threatened. The prescription for returning to balanced budgets is straightforward: hold the line on spending and grow the economy. This is the direction the President has chosen: a course to create real jobs that last. We are not going to let terrorism and its effects bring either our Nation or our economy to its knees.

Finally, we should remember that current deficits are small relative to our unique circumstances and to our economy as a whole. Even at their depth, they remain considerably below the typical levels following a recession over the last 30 years and they begin a pronounced improvement after next year.

We face new threats and challenges. Job creation and economic growth are keys not only to our near-term but our long-term success as well. If we are to meet the threats of today and the challenges of tomorrow, we must have a strong economy. In fact, we must seek a higher level of prosperity for America than we have known—one which puts us on an even higher growth path, one which unlocks the fullest potential and talents of the American people. That means encouraging hard work, rewarding hard work, and creating the opportunities for work for all Americans. These are the values that brought America to where we are today and they are the ones that we must allow to lead us into the future. We must also remember that our success and our example in this endeavor promises not only a brighter, better future for our people and our children, but for the rest of the world as well.

The Jobs and Growth Package, our new initiatives to promote savings, our proposal to promote health care coverage, to encourage charitable giving, and to promote responsible energy production, and improved compliance measures from the Internal Revenue Service are all important budget initiatives. Each of these is described in more detail in our request.

The Treasury Department's portion of the 2004 budget is nearly a third reduced from 2003, owing mainly to the separation of homeland security functions from the Treasury Department this year. Adjusting for that change, Treasury's request is an increase of about 3.5% over last year's request.

Treasury's budget request will allow us to build on our recent accomplishments and highlights our commitments to:

1. Fight the war against terrorist financing;
2. Ensure that the tax system is fair for all Americans through a comprehensive compliance effort that includes high income taxpayers;
3. Increase Treasury's efficiency and effectiveness by streamlining operations; and
4. Maintain the integrity of our Nation's financial systems and currency.

I look forward to discussing that plan and the rest of the President's budget with you today.

Chairman THOMAS. Thank you very much, Mr. Secretary. I do want Members to note that the Chair has placed himself on the clock so that Members will be mindful of the time available to them and that we can expeditiously question the Secretary, and the questions would come from all Members of the Committee if time possibly permits.

Mr. Secretary, your job prior to coming to this particular position is a very useful and important one because we often get wrapped up in academic discussions of effects. The President has proposed a number of changes to the Tax Code and you yourself recently used the phrase that those changes would have an effect "each and every year thereafter." When dealing with tax changes, speaking perhaps more from your previous position than your current position, what is the impact of permanent versus temporary?

Mr. SNOW. The difference, Mr. Chairman, between permanent and temporary is the difference between night and day. With permanent tax changes, businesses and individuals can plan for the

future. They build into their current behavior the expectation of that higher aftertax income, greater disposable income that they will have in the future. If they are a business, they build into the business today the plans into the future for higher returns on their investments, higher net income. That leads them to invest more today. It leads consumers to consume more today.

A critical feature of the President's bill is the multi-year character of it, because it causes people today to begin to change their behavior today in ways that are helpful to the economy.

Chairman THOMAS. Obviously, there are portions of the President's plan that are more far-reaching than others. If you were to identify those that are most critical for permanence, which would you identify?

Mr. SNOW. The package I think works as a whole, but the centerpiece of it is the acceleration of the tax rate reductions from 2004 and 2006 to 2003, and the dividend provision. The dividend provision in my view is the real centerpiece of this legislation. It is good economics, it deals with a major distortion in economic behavior, and eliminating that distortion will promote long-term growth and will promote jobs and economic activity.

Chairman THOMAS. Most often it has been said that, first of all, you want the changes and you want them to be permanent. We have, however, in the past and in the most recent tax bill made changes that were not permanent specifically in areas which allow business to make decisions today rather than tomorrow. The Chair would be the first to say that if we could make permanent changes in areas, especially of those depreciable assets of less than 5 years, it would be a giant stride forward. In the area of, for example, identifying small business as the President does in one of the sections of the Code, so-called section 179, what would be, if we are unable to make it permanent, a reasonable and appropriate timeframe to see behavior modified in the short term. With the intent to acquire equipment and workers to help stimulate the economy?

Mr. SNOW. The longer, in my view, is always the better. Something like a 5-year timeframe would seem to make sense to me, to give businesses an opportunity to plan ahead and know it is going to be there. It is the permanency of the concept, that it is there and available, that causes businesses to respond. So, something along those lines. I think time periods are fairly arbitrary, Mr. Chairman.

Chairman THOMAS. When we use the phrase "stimulus versus long-term growth," in your opinion is it better to spend a greater amount of money now, notwithstanding the current budget situation, to lock in the longer term, than to save money and do it only for a short period of time? Where is the real savings?

Mr. SNOW. I would strongly come down on the side of long-term growth, investing now for long-term growth. As you know, looking at the problems the country faces in the years ahead, the surest way for us to equip ourselves to deal with those issues, Medicare funding, Social Security funding, the flexibility to respond to international crises, that is best provided for with a strong and buoyant and large economy.

Chairman THOMAS. I thank the gentleman. My time has expired. The gentleman from New York, does the Ranking Member wish to inquire?

Mr. RANGEL. Thank you, Mr. Chairman. Welcome again, Mr. Secretary. Is it safe to say under the President's proposal that the surplus in the Medicare Trust Fund and the Social Security Trust Fund will be completely wiped out?

Mr. SNOW. No, Mr. Rangel, that would be a misstatement of the results of the President's growth and tax plan.

Mr. RANGEL. Well, the moneys that are being paid into the trust fund, they will not be in the trust fund. Would they not be transferred to the general fund?

Mr. SNOW. Every penny of trust fund surplus will be credited to the trust fund.

Mr. RANGEL. It will be credited, but it would be used—the actual money will be used to reduce taxes, would they not?

Mr. SNOW. No, Mr. Rangel. The integrity of the Social Security system, the integrity of the Medicare system, remain. Ultimately, in a pay-as-you-go system, the integrity of that system depends upon the success of the economy. It is a pay-as-you-go system.

Mr. RANGEL. I thought that the majority had convinced you that, in order to maintain the integrity of this system, the money would have to be placed in a lockbox. Do you remember that expression, a "lockbox?" That was supposed to protect the integrity of the system. Are you saying now we don't need a lockbox to protect the integrity of the pay-as-you-go system?

Mr. SNOW. No, I don't think you do at all. The lockbox really comes down to paying down the Federal debt. This is the wrong time to be doing that. There are reasons, legitimate reasons, why we have a deficit today. We have a deficit primarily because we have come through a very significant recession and fall-off in revenues, Federal revenues, because of the collapse of the stock market, a period where options and bonuses and corporate compensation levels have dropped significantly.

It was capital gains and bonuses and incentive compensation that pushed up in a surprising way the government revenues in the late nineties. I was as surprised as anyone else to see those government revenues go up, but they were really a direct reflection of the stock market, the buoyant stock market and options and incentive pay plans.

Mr. RANGEL. Is the reform of the Social Security system as you understand it off of the agenda now?

Mr. SNOW. No, I think the President is committed to reform of Social Security.

Mr. RANGEL. The Office of Management and Budget (OMB) gave an estimate of $1 trillion in order to so call reform it, or some say privatize it. Would that estimate still exist today?

Mr. SNOW. Mr. Rangel, I am not familiar with the number you are citing, but any reform of Social Security is going to require some infusion of some kind, higher savings rates within Social Security. Longer term, we have to find a way to sustain it, and that means more—that means some set of reforms that put it on a sounder financial footing.

Mr. RANGEL. Have you given any consideration of the impact of the projected tax cuts on local and State governments, whether they should expect a reduced source of revenue as a result of this proposal?

Mr. SNOW. I have looked at some analyses on that, Mr. Rangel, and the net of the reductions and the gains is about a wash from the numbers I have seen, maybe slightly positive.

Mr. RANGEL. Have you heard from the Governors on this issue as to what they believe the impact would be on their tax systems?

Mr. SNOW. No, I have not at this point. I have only been in office a day, though.

Mr. RANGEL. I was under the impression there were some people there before you that may have shared their knowledge with you. We will look forward to working with you, Mr. Secretary, and I thank the Chairman for this time.

Chairman THOMAS. I thank the gentleman for staying within the timeframe. The Chair now recognizes the gentleman from Illinois, Mr. Crane, if he wishes to inquire.

Mr. CRANE. Yes, indeed. Mr. Secretary, congratulations and thank you for being here today. I look forward to working closely with you this year as we work to implement the President's growth package, but I also want to express appreciation to you going back some years when you were Chairman of The Business Roundtable. I serve as Chairman of the Subcommittee on Trade, and you played a very key role in helping us get the passage of the North American Free Trade Agreement. It was a critically important piece of legislation, and you marshalling the troops out there in the business community was a very important act.

I want to just make one question, but before getting into that, I did not realize you were from Toledo. When you were in high school, I was in the real estate business down in Toledo briefly for about half a year. I am sorry I missed seeing you back in those days.

The one question I have is the President's budget provides for the permanent extension of the tax relief that was included in the 2001 tax cut. There are some who claim that the cost of permanently extending that tax relief would increase government debt and lead to higher interest rates in the future. Is that true, or is that not true, and why or why not?

Mr. SNOW. Well, there would, of course, be some cost associated with making those tax changes permanent, but, for my money, there would be an even bigger economic cost associated with not making them permanent. Because by not making them permanent, we would—the tax on low-income families would go up 50 percent or some number like that. The marriage penalties would be restored, and the advantages of the child credit would be lost.

I can't give you the budget impact of making it permanent, but I think it is unthinkable that we would ever take tax rates up to that prior level. If the American business community or the citizens of the country ever thought the rates were going back to that level, I think we would have a disaster on our hands.

Mr. CRANE. Well, thank you, Mr. Secretary. I look forward to working with you. I yield back the balance of my time.

Chairman THOMAS. I thank the gentleman. Prior to recognizing the gentleman from California for the purpose of relinquishing his time, I understand, the Chair would urge Members to speak directly into the microphone. The Chair is in hopes of refurbishing the 1950 sound system that we have in this room prior to the end

of this session. Similarly, as we had difficulty in hearing the Secretary initially, I do believe the audience as well as others would prefer to hear clearly what the Members have to say.

With that, the Chair recognizes the gentleman from California, Mr. Stark.

Mr. STARK. Thank you, Mr. Chairman. In the spirit of the newest Member of the Administration, I would like at this time to yield my time to the newest Member on our side of the aisle, the gentlewoman from Ohio, Ms. Tubbs Jones.

Chairman THOMAS. Ms. Tubbs Jones, you are recognized for 5 minutes.

Ms. TUBBS JONES. I love you, Mr. Stark. Mr. Chairman, Secretary Snow, good afternoon.

Mr. SNOW. Good afternoon.

Ms. TUBBS JONES. In Ohio, our Republican Governor just released a 2-year, $49.2 billion budget that he said contained very little good news. In fact, it contains $3 billion in tax increases. It includes tacking on an additional 5 percent sales tax onto services like dry cleaning, manicures, cable TV, life entertainment, and increases fees for hunting and fishing licenses. Many Ohioans would see their Medicaid coverage cut, food banks will no longer be able to count on State moneys, and other social services will suffer, which in turn will hurt the people that depend on those services most.

In my congressional district in Cleveland, the Mayor just announced a plan to raise $10 million by increasing most of the fees charged by the city, things such as birth certificates, building permits, housing inspections and taxicab licenses. Even with these increases Cleveland might not be able to match the cost of providing these services.

The financial straits of Ohio and Cleveland are not unique. Most of the States and many of the major cities across this country are facing similar lean times and being forced to respond to this in cuts and services and increases in fees, just to barely keep their heads above water.

I heard you say previously, sir, that you believe that the dividend tax cut would have a significant influence on assisting States and governments. Can you kindly tell me what impact the dividend tax cut has on the low-income housing tax credit, sir?

Mr. SNOW. It is the tax package as a whole that I was referring to in saying that the effects are slightly positive from the analysis I have seen. That comes from the fact that the package as a whole induces growth, creates growth in the economy that would not be there otherwise, and that higher growth in the economy will generate additional State and local revenues.

Ms. TUBBS JONES. Have you read then, sir, that in fact the dividend tax cut will in fact repeal the low-income housing tax credit?

Mr. SNOW. I don't think it repeals it.

Ms. TUBBS JONES. Not in fact repeals, but in actuality will repeal it.

Mr. SNOW. I have looked at that issue of the effect of the dividend on dividend exclusion on other tax-favored forms of investment, and I don't think there—there may be some effect as people

who now find equity investments are a little more attractive than they were before, or somewhat more attractive, will shift into equities and out of some other kinds of vehicles, but I don't think it will be dramatic.

Ms. TUBBS JONES. Let me say this, Mr. Secretary. I would appreciate if you would, since it is your first day, not guess about that, because I am hearing from people all across this country that the dividend tax cut will have a significant impact on low-income housing credit; and particularly in these days and times when housing is so important to so many Americans it would be important that you, as the Secretary of the Treasury, understand that.

Let me move on. I only get 5 minutes, so I have to move very quickly. Let me ask you, sir, in the President's budget, is there a line item for the cost of the war in Iraq?

Mr. SNOW. I don't believe there is.

Ms. TUBBS JONES. Can you, sir, or have you in fact discussed this issue with the President of the United States, and can you say to the American public any guess or estimate or guesstimate on what that cost will be and the impact it will have on our economy, sir?

Mr. SNOW. Of course, it is the President's hope there will not be a war and that Saddam Hussein will give up the weapons of mass destruction in a peaceable way and abide by the U.N. resolution. So the plan, the hope, is to get Saddam Hussein to live by the international law, which would avoid a war.

Ms. TUBBS JONES. I hate to cut you off, but I am almost out of time. Can you answer my question specifically?

Mr. SNOW. Have I talked with the President of the United States about the cost of the war? No.

Ms. TUBBS JONES. I asked you what was the cost of the war, sir.

Mr. SNOW. I don't know that there will be a war, so I don't have an answer to that question.

Chairman THOMAS. The Chair would indicate to any Member they may submit questions in writing. It is oftentimes, within the timeframe of the hearing, impossible to achieve full and complete answers. As to whether or not we are at war with Iraq, an answer to that may be supplied fairly quickly. Does the gentlewoman from Connecticut wish to inquire?

Mrs. JOHNSON OF CONNECTICUT. Thank you, Mr. Chairman.

Welcome, Mr. Snow. It is a pleasure to have you, Mr. Secretary. I just want to make a couple of comments, because 5 minutes is not time enough to lay on the table the questions that I have about some aspects of the President's proposal.

I do welcome the President having taken on one of the major concerns or one of the major issues that we must all be concerned about in the Tax Code. I don't think it is the one I would have taken on first, but this Committee has had testimony from more than 2 years, I think the earliest testimony goes back 3 years, as to how the American Tax Code is literally pushing companies offshore.

We have heard more about that last year. Our Tax Code is not only making us noncompetitive, it is motivating American compa-

nies to move abroad; and, almost worse than that, it is resulting in the majority of mergers between foreign and domestic companies, resulting in foreign ownership.

The implications of that surge of foreign ownership over jobs, over where research and development is done, over where development takes place and over ultimate control of profits, is something I think ought to concern all of us. So, not only am I concerned about the World Trade Organization's decision in regard to the way we tax foreign income and the necessity, as the Chairman noted in his opening remarks, for us to change that law, but I am also very concerned about the degree to which our Tax Code is making our biggest producers noncompetitive. If they die, so do little guys.

So, I am pleased to see the President take on a serious issue like the double taxation of dividends. I am concerned the way the proposal is structured will actually eliminate the incentive for companies to participate in the low-income housing tax credit, which has been a primary mover of the building of high-quality, affordable rental housing. I am very much afraid it will impact the research and development tax credit, which is important to our companies in this international competitive environment. I am very concerned it will have an impact on the annuity industry, which has been a very good actor in giving people a way to provide retirement security for themselves to complement rather modest Social Security benefits. So, there are a lot of things I think we need to look closely at.

I did want to say that this issue of competitiveness and whether or not our manufacturing sector is going to survive is very much on the top of my mind. I do believe if we don't take some significant action in support of basic manufacturing, tool, die, precision machining in the very near future that we will not have the core manufacturing base that you need to defend yourselves or to have a strong economy.

I have been meeting with producers extensively, and I am pretty conscious now and involved in the interrelationship between these competitive issues that this Committee has looked at in the last few years and their impact on the big actors, the steel decision's impact on the little actors, and the really extraordinary fragility right now of small manufacturing in America. So, there are some priorities that I hold higher than eliminating the double taxation of dividends, though I understand in the long run we can't be the only country in the world that double taxes dividends.

Mr. SNOW. I appreciate those comments and look forward to discussing a number of those subjects with you. You make a number of very good points.

The case for the dividend exclusion is almost overwhelming. Every other country—we have the highest tax on dividends of anybody but one other major country in the world. It leads to higher debt ratios than otherwise would be the case. Debt-to-equity ratios in America are higher than they otherwise would be. In a period when we are anxious to get good corporate governance, an essential element of good corporate governance is revealing to shareholders what the earning power is. You can't fudge cash or cash dividends.

You mentioned inversions. One aspect of making dividends not taxable, of course, is if it is not taxable, what is the point of trying to avoid it, and on and on.

I have not met one economist who doesn't say this makes good economic policy sense. I haven't met one economist who does not say the current Tax Code encourages over-reliance on debt. I haven't met one economist who has not said that this is good, sound, strong economic policy which promotes growth because it lowers the cost of equity capital. If it lowers the cost of equity capital, we will have more equity capital. You will have more of everything that you drop the price of. Having more equity capital means growing the economy a little faster, and that means jobs.

Mrs. JOHNSON OF CONNECTICUT. Thank you. Our time has expired.

Chairman THOMAS. Does the gentleman from California, Mr. Matsui, wish to inquire?

Mr. MATSUI. Yes. Thank you very much, Mr. Chairman. Welcome, Secretary Snow. Thank you for your kindness.

This is not part of my question, but I might add that I don't know if it really does reduce the cost of capital in reference to the double tax of dividends elimination, because I think the Administration, irrespective of what one thinks about dividend deductions or the dividend non-taxability, it should really go to the corporation rather than the individuals. That would be the way to make sure that you would lower the cost of capital. The way you are doing it probably has very little impact on both the market—the stock market, that is—and obviously also on the cost of capital. That is an issue I will leave for another day. What I really want to get into, if I may, is the whole issue of deficits.

I read your testimony, and I heard your testimony. On page 2, in the third paragraph, where you start "Before I turn to the budget, a word about deficits," I just would like to randomly quote a few comments here. You say, "Deficits matter. They are never welcome." Then you say again, "Are these deficits welcome? No. Are they understandable? Yes." Then you say, "Finally, we should remember that current deficits are small relative to our unique circumstances and our economy as a whole."

Now I read your statement that you made in November, on November 13, 1995, in the Richmond Post Dispatch. You say, "Credible, sustainable reduction in Federal deficits leading to a balanced budget will bring major economic benefits." Then you also state in that same article, "A balanced Federal budget is the best choice to ensure a bright future for the Nation's economy."

Of course, Mr. Greenspan has said the same thing. He has stated, "History suggests that our abandonment of fiscal discipline will eventually push up interest rates, crowd out capital spending, lower productive growth and force harder choices in the future."

Now, the reason I find the 1995 Richmond Post Dispatch statement of yours rather interesting is because I really do believe you believe it. You are a businessperson. You know what makes the economy run. You know, obviously, about what makes the financial markets work.

At that time, when you made that observation in your comment in the newspaper, the percentage of the Federal budget deficit in

relation to the Gross Domestic Product (GDP) of the economy was 2.2 percent. We were in 1995 on a trend line moving to reduce the deficit. There was a real effort by the President and by the Congress to reduce the budget deficit.

What I see here is in the opposite direction. One, it doesn't appear there is an effort to reduce the deficit. In fact, we just said we got a $308 billion deficit this year and we will have a $304 billion deficit next year and deficits for at least the next 5 years exceeding $1 trillion. In addition to that, the deficit for this year is not 2.2 percent as a relation to GDP, but it is 3 percent. So if it applied to 1995, when it was 2.2 percent of GDP, and now it is 3 percent of GDP, why is it not a problem and it was a problem then?

At that time, if you recall, we were moving out of recession as well. We were probably out of it, but we were still in a period of sluggish growth and it wasn't really until about a year later that we actually saw the recovery truly take place. It seems to be inconsistent. I think you probably owe the American public a little better explanation than in a three paragraph statement about deficits.

Mr. SNOW. Let me try and address that question. It is absolutely a fair and appropriate question. In the nineties, the early nineties up through 1995, I was quite concerned about the direction, and I am sure many of you were, that deficits were taking in the United States. We didn't have a war. We had a reasonably strong economy by 1993 and 1994.

Mr. MATSUI. If I may interrupt, I apologize, but you are not including in your numbers the war in your numbers, not the Iraqi war.

Mr. SNOW. No, no, but we do have a war on terrorism. We have had a response to September 11, and we have had a dramatic fall-off in Federal revenues, a dramatic fall-off. It fell off as unexpectedly as it began. I don't think anybody foresaw the explosion of Federal revenues that began in, oh, the late nineties, 1997 and 1998, as the stock market exploded and those options in that buoyant time began to pay off and incentive compensation paid off and we had a surge in Federal revenues like we had never seen before.

That surge is gone. The economy has been through a rough patch. I think something like, oh, the sixties—Mitch Daniel will be here and have the charts to show this. Far and away the biggest part of this deficit is explained by the economic slowdown, fall-off, the combination of the fall-off in revenues because of the stock market and options and incentive compensation and the decline in Federal revenues as a consequence of the recession.

So I think the circumstances are very different. I will agree with the basic premise. If we ever get to the point where financial markets foresee sizable deficits without fiscal discipline as a centerpiece of governmental policy, where those deficits are rising in absolute terms and as a percentage of GDP, the markets will respond.

Chairman Greenspan is right. At some point, if that is where the market saw us going, they would exact a price in terms of higher interest rates. I am saying we are a long way from there now. We can manage these deficits, particularly because they are explained by urgent national priorities and because there is a commitment to have them shrink over time and go down, as I am confident they will.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from Michigan wish to inquire?

Mr. LEVIN. Yes. So let me follow up, Mr. Secretary. Welcome. Like Mr. Matsui and I think everybody else, I read your testimony about deficits and your minimizing them. By the way, on dividends, you have never met or heard of an economist who disagrees with you. I will send you a list; and if you don't mind, I will make it public because your statement is public. For anyone to think that there is a unanimous view of economists on this subject is really ignoring what a lot of economists have to say.

Back to the deficit. You really minimize it. You indicate that historically the deficits are less than usually true; that the recession—you tend to minimize the recession, at one point congratulating the President on his efforts that pulled us out of the recession, though I think we are still in it. Then you talk about the dramatic drop in receipts as if the recession wasn't so mild.

I want everybody to go back through history and look not at the rhetoric, if I might say so, but at the record. I think what one sees is that the deficit now, as Mr. Matsui has pointed out, is well above where they were when you made your comments in 1995. When you say they are headed down over a long period of time, or over the years ahead after next year, I think people are not being realistic, because so much of the expenditures aren't included in these budget estimates, including the cost of a war if it occurs.

I went back over the last 30 years in terms of deficits, and I hope everybody will look at them, deficits, in relationship to GDP. What one finds is that—we are talking about usually 1 percent, 2 percent of GDP, and then they go up. Often they go up not after a major recession like the sixties, where we are talking about the early sixties they were in 1 percent, nine-tenths of a percent. They go up in the eighties when there is a recession, but also when we had the supply-side economics tax cuts. Those deficits continued despite what were supposed to be sparked in terms of economic growth, and now we are back at it again. We had tax cuts a couple years ago, and the deficits are increasing. Now, the proposal is another $600 to $700 billion, plus the cost and interest, and you just throw away your precautions of some years ago.

So, I want everybody to look at the exact figures over these last 30 and 40 years. I don't think that they substantiate your statement regarding they are low relating to recessions, and they don't take into account the cuts in taxes in the eighties that led to these deficits, or was one reason. Economists say at least a third if not more of our present shortfall is because of the recent tax cuts. You just disregard that.

So, we read back your words not because we want you to eat crow 3 or 4 years from now, but because we want some sound policies next year as well as this year. So, tell us again, you have just a little time, you are really totally confident that your concerns of 1995 about these deficits are irrelevant to this situation of this year 2003 and 2004? They are irrelevant? You have no concern? You are jolly well sure everything is going to be fine?

Mr. SNOW. Oh, you are not going to paint me into that corner.

Chairman THOMAS. The Chair would indicate that the gentleman's question consumed the 5 minutes. The Chair allowed the

witness to answer a question which was 4½ minutes. If the pattern continues, the Chair would request all Members to submit their questions in writing, and the Secretary may answer them in writing. Therefore, the Chair would appreciate the reasonableness of not abusing the timeframe in which the entire time is taken up with the question. The Chair then feels compelled to allow the witness to answer it. Let the Chair note, this is the second time in a row that it has occurred. Early on we seem to be in midseason form. Mr. Secretary.

Mr. SNOW. Thank you. Let me be brief. The circumstances of then are different than the circumstances of now. Deficits matter. If the markets perceive deficits as being out of control, there will be market reactions. These deficits are not out of control. Interest rates is the barometer to look at to determine whether markets are beginning to get jittery. We have the lowest interest rates, Congressman, as you know, in 40 years, and the level of interest rates simply isn't consistent with the observation that this deficit threatens our financial security.

On the other hand, we must always be vigilant on deficits. It is critical that we be vigilant on deficits, and there are two ways to deal with deficits, in my view. One is a lot of growth. Get the stock market strong again. Get more people working. Get corporate profits up. Receipts will rise. Second, it is tight spending controls. That is the only way to do it.

I will continue to be a serious deficit hawk. I don't retreat at all from my view that deficits matter, and that deficits that are too large relative to the scope of the economy and a corresponding debt level that is too high relative to the size of the economy if perceived as being a permanent part of the financial landscape are troubling, and will invite higher interest rates, which will slow growth.

So, I remain committed to fiscal discipline, but I also think—and I mean this sincerely—that things like the dividend exclusion and the small business tax reductions and accelerating these tax cuts will give us growth that will help to put us on a path where the economy is much stronger.

Chairman THOMAS. The gentleman from Michigan's time has expired. Does the gentleman from California wish to inquire?

Mr. HERGER. Yes. Mr. Secretary, I want to join in thanking you for appearing before our Committee and congratulate you on your recent confirmation. I want to start by commending the Bush Administration on its proposals to make it easier for Americans to save for their retirement.

As you know, many Americans today are concerned that they will not be able to save enough for their golden years. This is especially true for the more than half of all Americans who work for small businesses. Consider that while 85 percent of employees at firms with more than 100 employees have an employer or union-sponsored pension plan, only 31 percent of those working in firms with fewer than 100 employees have such a plan. As a result, only half of all working Americans have any pension plan at all. Small businessowners often cite the complexity of current rules and high compliance costs as reasons they do not offer pension plans.

Mr. Secretary, by simplifying and streamlining pension plan rules, do you anticipate that it will be easier for smaller employers to offer these plans to their employees?

Mr. SNOW. Congressman, absolutely. The whole purpose of these lifetime savings accounts, the so-called LSAs, and the retirement savings accounts, the RSAs, is to do precisely that. Only something like 25 percent of small businesses have any retirement plan, and the reasons you cite explain that: complexity, lack of flexibility, withdrawal terms, age limits, and on and on and on. What these new accounts do is to create a much more flexible and a much simpler way to save. I think that will clearly lead more small companies to put in place savings plans, and that will serve an important national objective of encouraging savings and promoting retirement security. I think this is a splendid development, a splendid proposal.

Mr. HERGER. Thank you. Speaking of small business, let me also commend the Administration for its proposal to triple the small business expensing limit. Under the current law, small businesses can expense or fully deduct from taxable income up to $25,000 per year in new business investment. The Administration's proposal would increase this limitation to $75,000 per year, thus making it more affordable for businesses to make the kinds of business investments that we know are critical to our Nation's economic well-being. I have introduced legislation to implement the Administration's small business expensing proposal and look forward to working with you on this important issue.

Last but not least, I notice that this year's budget includes a provision to make permanent the research and development tax credit that is scheduled to expire next year. This credit is very important to high-tech industry. In my home State of California, our State ranks first in high-tech employment and second in the high-tech average wage. While Californians represent about 13 percent of all the Nation's economy, it represents nearly 20 percent of all research and development spending. This spending creates high-paying jobs and has a positive ripple effect across California's economy. Given the recent economic downturn, it is more important than ever that we make the research and development credit permanent. I want to thank the Administration for including this item in this year's budget.

Mr. SNOW. Thank you very much, Congressman. I think you have put your finger on one of the most powerful aspects, the most compelling on the President's proposal. The expensing, I would say, though, goes hand in hand, as you know, with the acceleration of the reduction in the tax rates because so many small businesses operate on a so-called now flow basis. They will be greatly advantaged by having lower marginal tax rates, which will cause their businesses to be in effect more profitable, which will lead them to want to undertake more investments and to use more of that expanded expensing. The two planks go hand in hand to create job growth and expansion in the small business sector.

Mr. HERGER. Thank you very much.

Chairman THOMAS. Thank the gentleman. Does the gentleman from Maryland wish to inquire?

Mr. CARDIN. Thank you, Mr. Chairman. Mr. Chairman, as I pointed out, I welcome Mr. Snow here to our Committee. Mr. Snow for a time lived in Baltimore and was not only an outstanding business leader, but a person who really helped our community. Secretary Snow, welcome to the Committee.

Mr. SNOW. Thank you.

Mr. CARDIN. We understand that your new assignment will require certain changes as far as your involvement in our community, particularly with Johns Hopkins. We will miss that, but we very much welcome you in your new role as Secretary of the Treasury.

Mr. SNOW. Thank you very much.

Mr. CARDIN. I want to follow up on the point that was just made concerning small business and retirement savings, and I have a somewhat different concern. Mr. Portman and I, along with other Members of the Committee, Mr. Pomeroy and others, have been working in a bipartisan way to try to increase savings opportunities for Americans. With the help of Chairman Thomas, we have passed major legislation on a strong bipartisan vote on the Floor enhancing opportunity for people to put money away for their own retirement.

We have done that for many reasons. Social Security has been mentioned previously, but as you know, private retirement savings is critical to the success long term of Social Security, and our savings ratios in this Nation need to be increased.

At the same time, our priority has been to increase the number of employer-sponsored plans, because if the employer puts money on the table, it is more likely that younger workers and lower-wage workers are going to participate in retirement plans. We also don't want shelters, and this Committee has been pretty clear about trying to avoid types of opportunities that have very little social benefit that are tax-favored.

So, with that in mind, I want you to respond to two parts of the President's proposal; the first, the President's lifetime savings accounts. I have a concern that will be a shelter; that it will just allow individuals to take moneys that are already in savings and transfer them into the LSAs where there is no penalty for withdrawal, can be withdrawn for any purpose whatsoever. Why wouldn't that just be a vehicle? Wouldn't that be the first advice given by any accountant or tax planner, to take the moneys that you have in taxable savings and just transfer them over to the LSA in order to avoid current taxes?

Mr. SNOW. Well, there is an annual contribution limit, of course.

Mr. CARDIN. $7,500.

Mr. SNOW. $7,000. It is a vehicle—there are always tradeoffs in these things. This is a vehicle to encourage savings for smaller businesspeople and people who don't—wealthy people have lots of ways to save.

Mr. CARDIN. I agree with you.

Mr. SNOW. This is a way to encourage savings on the part of people who have a difficult time working their way through the complexity of the individual retirement accounts (IRA) and the Roths and the 401(k)s and so on and so forth. Now, maybe it can be made better, maybe it can be improved, and certainly we would

be interested hearing from you on that and working with you. The whole idea is to stimulate savings in the sector of the economy where savings rates are inadequate.

Mr. CARDIN. We share that concern, and that is why we would urge you to take a look at some of the proposals that have been placed on the table for low-income wage earners to offer incentives for them to save, and to encourage small businesses to provide employer-sponsored plans so money is on the table for lower-wage workers.

Your RSA account also troubles me. It seems to me that if I am a small businessperson and I have a retirement plan for my employees, and you are now offering me an opportunity to put $7,500 a year in the RSA account, why wouldn't I just put the money in the RSA account and not go through any of the aggravations of establishing a retirement plan for the rest of my workers?

Again, our goal is to get more money into retirement savings, and it seems to me, with the flexibility that is being offered under the President's proposal, we are liable to end up with less money in retirement savings.

Mr. SNOW. Well, you raise good questions, and some of the questions I have begun to raise myself. When you talk to people who market, who are in the business of selling savings accounts of one kind or another, they come back and say these are hard to sell because of the complexity——

Mr. CARDIN. So, we should fix those.

Mr. SNOW. Making available simpler, more flexible savings vehicles of some kind will stimulate savings. That is the objective. Congressman, I would be delighted to hear your suggestions on how to do it better.

Mr. CARDIN. Thank you. Thank you, Mr. Chairman.

Chairman THOMAS. Thank the gentleman. Does the gentleman from Louisiana wish to inquire?

Mr. MCCRERY. Yes. Thank you, Mr. Chairman. Mr. Secretary, the Ranking Member of the Committee on Ways and Means today made a statement—and I think I am quoting him accurately when he—he said that "most economists think these deficits will be devastating." Although my good friend from New York is not usually guilty of hyperbole, he may have slipped up this once. I think it is important for us not to let that statement stand. It is important because I think the American public wants to know the answer to that question; and certainly those of us in the legislative branch who are elected by the American public would feel more comfortable voting for the President's plan if we thought the American public agreed with your assessment that these deficits as outlined in the President's plans are not devastating and, in fact, may be desirable in the short term.

In fact, I am fairly sure in saying that the majority of the economists would not agree with Mr. Rangel's statement, and I will quote a couple of them to illustrate why I think that.

A John Cedar, a professor at North Carolina State University, published a comprehensive survey of the literature on this subject in 1993 and found that, "the effects of government debt and deficits on the economy are not obvious from either economic theory or statistical evidence." More recently, Kevin Klieson, an economist at

the Federal Reserve Bank of St. Louis, states: “Empirically, the linkage between budget deficits or surpluses and interest rates is weak.”

So, in fact, the literature does not support the conclusion that the Ranking Member has drawn, and, in fact, there is probably some disagreement among economists as to the effect of deficits the size of which are portrayed in the President’s budget. I think that probably is the most important subject we should discuss with respect to the question of deficits. The deficits referred to in the early eighties, for example, ran about 6 percent of our GDP. Now, I would probably agree that those deficits, if allowed to string out over a number of years, could become dangerous. The deficits outlined in the President’s budget at their highest are 2.8 percent and then quickly going down to 1.8 percent, 1.6 percent and so on. Clearly, the deficits anticipated by the President’s budget are nowhere near the deficits we experienced in the eighties, in the early eighties. So, I think it is important for the public to understand that.

Also, you have alluded to the fact—or your belief anyway—that these deficits will be short-term and, in fact, are necessary or at least desirable in order to improve the economy, to get the economic growth at a higher rate. Is that correct? Is that your assessment?

Mr. SNOW. It absolutely is, Congressman. I agree with your assessment of deficits. Deficits become troublesome when they are large relative to the earning power of the economy and seen as going on and on. That is when financial markets get upset.

Mr. MCCRERY. Structural deficits.

Mr. SNOW. Structural deficits.

Mr. MCCRERY. Are we in a structural deficit now?

Mr. SNOW. No, we are not in a structural deficit. The deficit, as I have said, is modest relative to historical circumstances and modest relative to the circumstances we find ourselves in. Most importantly, it is going to be declining both in absolute terms and in relative terms. It is a manageable deficit. Do I wish we could accomplish all that we need to accomplish, the war on terrorism, the stimulating and growing the economy, preparing for longer term growth with well thought out tax advantages? Yes, I do. This is an investment in our future. It is a prudent investment in our future.

Mr. MCCRERY. In fact, Mr. Secretary, if you look at the history books, you will see that every time the United States has been at war, we have run deficits. Every time the United States has had a recession, we have run deficits. This is no different.

I would like you to comment quickly, if you could, on a statement made by another Member of the Minority on the Committee who said that the dividend exclusion would have little effect on the cost of capital or the stock market. Do you agree with that?

Mr. SNOW. No. I would disagree with that very strongly. I think the dividend exclusion will be a very powerful—have a very powerful effect on equity investments, on equity valuations longer term, and on growing the economy. It will lead to a stronger and better economy. It is a centerpiece of this proposal.

Mr. MCCRERY. Thank you.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from Washington wish to inquire?

Mr. MCDERMOTT. Sure. Mr. Secretary, you have had a very calming influence on this Committee; they are very quiet. Now that Mr. McCrery has ruled out any more hyperbole, I just want to give one quote from your past.

Within 10 years from 1995, the Federal budget's two fastest growing components, interest on the debt and entitlement such as Social Security, Medicare, Medicaid, and Federal pensions, will consume all the Federal revenue. There will be no money left for any other Federal programs, not even national defense. Now, you wouldn't stand by that, would you?

Mr. SNOW. The underlying forces that were at work then——

Mr. MCDERMOTT. You mean when Democrats were raising taxes——

Mr. SNOW. Are fortunately——

Mr. MCDERMOTT. Paying this on the debt?

Mr. SNOW. Are fortunately, still at work longer term. My crystal ball was off by some time. Those demographics that are driving those numbers are—and that, as you know better than I, health care costs, those forces are still at work.

Mr. MCDERMOTT. Well, I have a very hard time sitting here listening to what was said by the last speaker, and you agreed with it. Mr. McCrery said when we have wars, we run deficits; when we have depressions and recessions, we have deficits. I don't remember that we cut taxes every time that we had a recession or a war. That is what is different about this. What really troubles me—and I was riding out on a plane from Seattle, and a guy said to me, I do not fly U.S. carriers anyplace but in the United States. I won't go overseas on one of them because I am afraid.

What I am trying to figure out is how does the President stimulate people to invest when people are scared about a war? If you can explain to me how cutting the dividend tax will somehow in this climate stimulate—I saw this ad in the Wall Street Journal where they had this—all these business people saying, we don't want to go to war. The war must be a stimulus for something, and I—why is the President taking us to war and giving away the money at the same time? How is that going to work? Explain that to me, because I am not an economist.

Mr. SNOW. The juxtaposition there, of course, is we face an external threat, and we need to address the external threat. We also face an internal threat, the need to keep the economy strong and on a good growth path. We are responding to both simultaneously, and that is appropriate.

Mr. MCDERMOTT. How can starting a war that is going to spend $100 to $200 billion over the next 10 years—and that is what Mr. Lindsey said before they fired him, so I assume he was telling us the truth right up there until the end. The fact is that if you are going to take that out of the economy, how are you going to have a stimulus of anything in a peacetime economy?

Mr. SNOW. Congressman, the President is trying to avoid a war, not get into a war. He is trying to——

Mr. MCDERMOTT. Did you advise him not to go to war?

Mr. SNOW. I am not at that end of the government. The President has plenty of good advisors on national security and on those issues.

What I would advise the President is that he has got a good growth package, and that this is the time to have a growth package. This is the time to make sure the economy stays strong. It is a growth package that is based on sound economics. If there are any economists who say that the dividend—that paying twice on corporate income, both at the corporate level and the individual level, is good economics, I haven't met them. I sure have met a lot who think it isn't good economics. I sure have met a lot who think it will stimulate the economy to lower the cost of equity capital. I have met an awful lot who think that we are encouraging debt-to-equity ratios that are too high. I have met many Congressmen who feel, as I do, that the current system discourages corporations from paying out their earnings in the form of dividends, because, after all, the effective rate on dividends is something like 70 percent. I don't——

Mr. MCDERMOTT. So, what you are saying is that having given this dividend break to the people on the top of the economic ladder, that will suddenly make it all better for the people in my district where the long-term unemployment has risen by 26 percent in the last 6 months. How is that going to work for the people on the bottom?

Mr. SNOW. Congressman, let me respond. There are a lot of people who will benefit from that dividend provision. Half of the American families are stockholders now. My mother was a schoolteacher. She taught in the Ohio public school system and retired on a pension from the Ohio school system. She also inherited from my father a few stocks, and she owned a few stocks; not a lot, never wealthy at all. She and her fellow schoolteachers would get together and have a cup of coffee or something once in a while and talk about their circumstances. Often their conversation turned to how low the Ohio State pension payments were to them, but how needful they were of it. Often the conversation turned to other sources of income, one of which was dividends.

To my mother, who lived on—I think her pension was $8,000 a year from the Ohio State teachers' plan, getting $200 or $300 extra from her dividends would have meant an awful lot. I submit there are a lot of people like that, elderly people for whom a few hundred dollars extra a month from a dividend would mean a lot.

Chairman THOMAS. If anyone is concerned about non-monetary incentives, I think there are a lot of folks in Ohio nowadays talking about "how about them Buckeyes." Does the gentleman from Wisconsin wish to inquire?

Mr. KLEZCKA. Mr. Chairman, thank you for the time. Mr. Secretary, there has been a lot of talk about deficits this afternoon, and I think I have sat here long enough. I have got it figured out. When deficits are increased during a Democratic Administration like in 1995, that is bad. When deficits are increased during a Republican Administration, that is okay; that is better. Mr. McCrery even told us that it is not only okay, but it is desirable. So, I just think I have it figured out. I want to share with my colleagues so

maybe we can get off the deficit thing and know for a while that we are going to be in a period of deficits whether we like it or not.

Years ago we were told that the effect of deficit was to raise the capital costs for other players in the market because the government is there taking it first. I guess those rules have changed also.

Mr. Secretary, my question to you is can you share with the Committee what the stimulus effect or the growth effect has been since the 2001, $1.2 trillion tax cut?

Mr. SNOW. Yes. I think you and your colleagues in the Congress and the Administration should take great satisfaction out of the fact that we avoided a much deeper, a much harsher and much longer recession.

Mr. KLEZCKA. Okay. So, it hasn't had any effect on unemployment. We have seen that balloon over the last year. Okay. Can you——

Mr. SNOW. I am sorry. You need to compare things with what they would otherwise have been, and without the effects of the Economic Growth and Tax Relief Reconciliation Act of 2001. I will submit to you that the economy would be in much worse shape today than it is.

Mr. KLEZCKA. Okay. Do you admit that it is not in very good shape today?

Mr. SNOW. I think it is recovering. The recovery isn't as certain or strong as I would like to see.

Mr. KLEZCKA. Well, it hasn't recovered in Milwaukee, Wisconsin. In fact, as I looked at the monitor earlier in the day, the stock market, the Dow, was down another 130. So, I can't concur with you the economy is resilient. I think we are still in some very deep and serious problems. Can you indicate to this Committee and to the American public that although the $1.2 trillion tax cut didn't bring us out of the recession totally, that if we throw another $674 billion at her, she is going to do it this time for sure?

Mr. SNOW. I would be confident that the course that the economy is on with the benefits of this package would, to a very high degree of probability, give us considerably more growth and considerably more jobs. I think the estimates are 450 to 500,000 additional jobs by the end of this year, and something like a million and a half, a million four, by the end of the fourth quarter next year. That would make a real dent in unemployment.

Mr. KLEZCKA. Again, that is a speculation. That is a guesstimate.

Let me ask one final question, Mr. Secretary. In the event that the President would go forward and attack the sovereign nation of Iraq, incurring what some experts indicate could be as much as an $8 billion cost per month—and that is on the low end, at that point would you recommend to the Congress that because of that incident, because of that occurrence, and because of the attendant costs of the war, that we should put aside for at least a small time or short time the tax cut?

Mr. SNOW. Congressman, I am still hopeful that war will be——

Mr. KLEZCKA. No, no. Let us get past that, okay? You and I aren't in that decision process. Let us say it would occur, and if you ask me, it will occur, because I think the President is possessed with this. That is not the debate before this Committee. Let us say

it would occur, and we are incurring costs to the tune of a minimum of $8 billion a month for the war. Would you at that point come to the Congress and advise that we set aside, for at least the time being, the tax cut that is on the table now?

Mr. SNOW. Congressman, I think that is awfully speculative. What I do know is the tax cut that is on the table in the circumstances we are in now makes good sense. I can——

Mr. KLEZCKA. If the circumstances change, and a higher priority then is the expenditure to keep our troops safe and to keep them armed. At that point would you say set the tax cut aside so he can fund the war totally?

Mr. SNOW. Congressman, I will say what I said earlier: That governmental policy should be addressed to priorities of the country.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from Michigan wish to inquire?

Mr. CAMP. Thank you, Mr. Chairman. Mr. Secretary, thank you for being here. I want to commend the President on his budget for the permanent extension of the research and development tax credit. I think that is a positive thing that will help investment, help product innovation, and ultimately create jobs. There is legislation that has been introduced by my colleague Mrs. Johnson, which I have cosponsored as well as Congressman Matsui and Cardin, that will help allow more companies to utilize that credit. I look forward to working with you on that.

We have had a particular problem with cyclical companies, those in the manufacturing sector, that, after September 11 and the economic slowdown that followed, have not been profitable. I think one way—and also, these companies are facing alternative minimum tax (AMT) and pension liabilities. I think one way to provide needed cash flow to these employers would be the extension of the net operating loss carried back from 2 to 5 years for losses incurred in 2003 and 2004. Do you think there is any likelihood that that provision might occur?

Mr. SNOW. I will have to check with the people who know a lot more about the technical side of those things than I do at this point and get back to you, but I will be pleased to do that.

[The information follows:]

Response: Under current tax law (as well as law in effect prior to 2002), the net operating loss (NOL) of a taxpayer generally can be carried back 2 years and carried forward 20 years to offset taxable income in such years. The carryback and carryover rule were established to allow taxpayers to level out fluctuations in taxable income. In 2002, temporary economic stimulus provisions applying to NOLs originating in 2001 and 2002 generally allowed a longer 5 year carryback period to increase cash flow through the refund of income taxes paid in prior years. The President's Jobs and Growth Plan did not include an extension of those rules principally because of the potential interaction with the proposal to eliminate the double tax on corporate profits. Now that Congress has enacted the jobs and growth package, we would be pleased to work with Congress on legislation to provide a longer carryback period for losses occurring in 2003 and 2004.

Mr. CAMP. Thank you, Mr. Chairman.

Chairman THOMAS. The gentleman from Georgia wish to inquire, Mr. Lewis?

Mr. LEWIS OF GEORGIA. Thank you very much, Mr. Chairman. Mr. Secretary, thank you very much for being here. I just have a few random thoughts and ideas, you can respond or maybe try to give me an answer to.

How do you justify such a massive tax cut? How much longer are we going to blame many of our economic problems on September 11? Mr. Secretary, we can only wrap ourselves in the flag so long. In this budget we see a dramatic increase in defense spending; at the same time, we see reduction in resources for domestic program across the government. I want to know whether you and the President are prepared to take care of the basic human needs of the American people, the people here at home. Mr. Secretary, with this budget, what is your vision? What is the vision of the President for the American people, for world community as we look ahead for the next 5, 10, or 20 years? You may respond, sir.

Mr. SNOW. Thank you. It is really an astonishing thing, Congressman, to realize what the American economy has been through, what our Nation has been through in a relatively brief period of time. I remember in my old life in the summer of 2000, a transportation company that operates through your city, as you know, but also operates all across this country and all across the world. Something happened in the summer of 2000 that led to a dramatic reduction in carloads, in truckloads, in containerloads not only at CSX, but at virtually every other major transportation company. That was reflecting something going on in the economy.

The wonderful period of the 1990s had come to an end. We saw it first—some of you mentioned your background in manufacturing. We saw it first in manufacturing, and as a transportation company we served manufacturing first and foremost. We also served the consumer sector of the economy, and the consumer sector began to decline slowly, and retail. Then, of course, we knew that by early in 2001 there was a recession under way. We in the industrial sector saw it first, but it hit the whole economy in 2001. Then we had September 11. Then we had this series of scandals in corporate America that shook our confidence in our capital markets, a real blow to the capital markets. On top of all that and occurring simultaneously was the biggest meltdown in the history of the U.S. equity markets, with some $7 trillion coming out of the system.

The wealth effects were massive, and they were widespread, because 50 percent of the families in America own equities. To think that we could weather those shocks and still have an economy performing as well as this one is today with low inflation rates and low interest rates, with a buoyant consumer market and a buoyant housing market, and with productivity in the last quarter an all-time high, it is really an astonishing commentary on the resiliency of this economy. Resiliency, that grows out of things that were done in the seventies and with deregulation and downsizing, and in the eighties with rightsizing and reengineering corporate structures and the application of technology to modern business, all of which—and the growth of global trade, all of which made this economy much more resilient than it otherwise would have been. You have all heard Chairman Greenspan talk much more eloquently than I can on those themes.

So, what do we want? We want an America that provides people with good jobs and good futures, real jobs, permanent jobs, and a sense of security. As Secretary of the Treasury, I have a real responsibility, Congressman, to play a leadership role in getting the American economy righted, to getting it going in the right direction, to giving people the opportunity to get the work they want, but with real jobs and rising standards of living, rising real wage rates. That is the sort of world that I believe in, and it is the sort of world the President believes in.

Mr. LEWIS OF GEORGIA. Thank you.

Chairman THOMAS. Thank the gentleman. Does the gentleman from Louisiana, Mr. Jefferson, wish to inquire?

Mr. JEFFERSON. Yes. Thank you, Mr. Chairman. I want to ask the Secretary this question. I have heard the idea of a stimulus package described as having two essential features, perhaps only two: The first being that it would be temporary, and the second is that it would have the effect of stimulating consumption either on the part of individuals or companies. Do you deal in a different definition of a stimulus package than that, or do you agree that that is the proper way to define it?

Mr. SNOW. Actually, I am not sure that I got—if I don't respond, it is because I may have missed a word or two there. I think your question went to the relationship between the permanency.

Mr. JEFFERSON. It went to the definition of what a stimulus package really is, the essentials of it. The essentials that have been talked about most in this Committee from every expert I have heard come before us is that the stimulus package is always temporary, and it always stimulates consumption either by individuals or by corporations.

Mr. Chairman, I have had to say that twice. I hope it doesn't take away from my time.

Mr. SNOW. Okay. I don't look at this as a traditional stimulus package. I look at this as a set of good economics which will have short-term and long-term effects. In the short term, there will be this spurt to growth that will assure that we stay on the recovery path and create the 500,000 jobs by the end of the fourth quarter of this year, and the million plus by the end of the fourth quarter next year, raising GDP by a percentage point or so, 1.1 I think in the numbers. Also, also—and this is I think the critical thing about this plan—creating, putting us on a stronger path for long-term growth that so forever, not just next year or the year after, but forever we are going to have the American economy performing better. So it is—I don't look at it as in terms of it being a short-term stimulus package.

Mr. JEFFERSON. The reason you usually look at it as a short-term package, because it imposes such huge shock into the economy, usually a huge shock into the budget deficit and to the deficits of the country. Usually sometimes we tolerate reductions in expenditures that the government can make and reductions in government income to offset against the effect of spur and consumption, and—but no one wants to tolerate long-term budget imbalances as a result of a stimulus, and that is why the talk is always temporary.

You seem to be saying that it is not a stimulus package in the traditional sense, it is some kind of a hybrid of a short-term/long-term package here. Now, that puts a huge bet on the rightness of this package, because if it is wrong, then we end up with living with deficits for the longest period of time. You need to understand, one thing that seems to me has been left out of here, we talk about the history that took place that brought these huge surpluses. You said was the economy that was rolling along and all that. Also, you might recall there were huge sacrifices made by many Members on this side of the aisle that dealt with increasing taxes, that set our budget right in 1993 that resulted in a whole lot of folks losing elections in 1994. That was a myriad of things that happened, not just—and many of these things, when we stop competing with the private sector and start being able to get interest rates down and that sort of business, that helped to spur the economic growth. It wasn't just the fact that somehow it just took off; it was that we did some things here that actually set a fiscal stage for that to happen. It didn't involve tax cuts, it involved tax increases on high-income folks, some direct targeted benefits to small businesses, and a number of other features that made the fiscal thing work here that really accounted for the positioning for the growth.

Now, the last thing I should say before my time does run out, I don't think there is any real room for what I might call informed disagreement on the issues that were raised by Stephanie Tubbs Jones a minute ago and by some others here about the effect that this corporate dividend deduction business shareholders will have on the tax advantage investments in low-income housing and new market tax credits and others. I don't think there is any basis to think that these effects won't follow. There is no need to have a follow-up question or a memo sent because it is pretty obvious, unless the shareholder doesn't get the tax-free dividends, unless the corporation pays the taxes. Ordinarily now we are depending on corporations to pay to take advantage of these credits in order to reduce that taxable income, and these things work against each other.

So, there has to be—my question is, since I know that is the effect of it, has the Administration thought about how it might minimize that or mitigate against it by having some sort of an opportunity for individuals perhaps to take advantage of the low-income housing rather than corporations to incentivize moving in that direction—so that you cannot have such a huge set of problems created by this business in the new market size credit and low-income housing area?

Mr. SNOW. Congressman, I will look forward to getting back to you on that. I responded earlier by saying that what I have looked at suggests the impact is not great, municipal bonds and other forms of investments, primarily because while there could theoretically be a relationship because they are substitutes in some ways, equities and debt, other forms of debt investments, the debt investments have a structure of their own that fits a particular investor profile, low risk, sort of fixed return, and they appear to be basically debt in equities. The sort of debt you are talking about, municipal bonds and so on, State bonds, are separate markets without close substitutability.

That is a subject that you raised a good question, and I will agree to look into it in more detail.

[The information follows:]

Response: As finally enacted by Congress, the provision reducing the double tax on corporate profits will have absolutely no effect on the low-income housing tax credit.

Chairman THOMAS. I thank the gentleman for his comments. Does the gentleman from California, Mr. Becerra, wish to inquire?

Mr. BECERRA. Thank you, Mr. Chairman. First, Mr. Secretary, welcome, and congratulations on being named the new Secretary. We wish you well and look forward to working with you.

Mr. SNOW. Thank you very much.

Mr. BECERRA. Obviously there will be a lot of issues that will bring you to our Committee often, and we are looking forward to have the chance to dialog with you.

I want to move back to what the President said in his State of the Union Address where he mentioned that he will not pass along our problems to other generations. That made me reflect back to what he had said just 2 years before in 2001, shortly after his State of the Union in his first year in office, where he said that every dollar of Social Security and Medicare tax revenue will be reserved for Social Security and Medicare. He said this, if you recall, to allay fears that many of us had that his 10-year, $1.7 trillion tax cut that would benefit mostly wealthy Americans would take us back down the road of deficits and raids on the Social Security and Medicare Trust Funds.

Today, the President's budget that we are discussing today would consume all of the Social Security and Medicare Trust Fund surpluses for at least 5 years, and likely longer, and that totals more than $1 trillion that would be raided from the Social Security and Medicare Trust Funds.

On top of that, rather than reduce or eliminate the debt, the national debt, as the President had first said he could back in 2001, his budget increases the national debt dramatically by well over $1 trillion over the next 5 to 10 years, depending on what happens with the economy.

Now, about a year ago, the last numbers we have special data for, we paid as a Nation about $171 billion in interest payments on the national debt. So, $171 billion in taxpayer money went for nothing more than to pay interest, gave us nothing, nothing more for our schools, nothing more for health care, did nothing for our roads, just to pay off the interest the way people have to pay interest on their mortgage or on a student loan. According to the Office of Management and Budget Director, Mr. Mitch Daniels, apparently we are looking at the possibility of having budget deficits increase to about $300 billion a year.

If when we had a national debt that causes us to pay $171 billion in interest, which amounts to about $1,300 per every American family in this country, if you look at a $300 billion deficit, which Mr. Daniels says we can expect, that is probably some $2,300 out of the pocket of each and every American family that, for most,

would be difficult to shoulder, let alone try to find moneys to save under the President's new tax savings plans.

My question is the President's proposal to cut taxes which he has before us which would cost us another $900 billion or so, which principally deals with dividend—elimination of the dividend tax, which benefits again mostly wealthy folks because they are the ones that own most of the stock. How is that going to help the average American? I know the President—and Mr. Secretary, I think you mentioned as well—that the average tax cut under this plan will be about $1,000 or $1,100, but I know that that factors in the very biggest tax cut with the very littlest tax cut, and the average comes out to $1,000. For the typical taxpayer, the person right in the center, the middle-income person, that 20 percent of Americans who are smack in the middle, my understanding of the Tax Code would be a little bit more than $200 for the entire year, because they are a little bit more typical than the average family of four with two kids. You know, whether we like it or not, the average family doesn't look like that anymore, and the typical middle-class family would receive about a $200 to $250 tax cut, whereas the millionaire would probably get, under this plan, about $90,000 in a tax cut.

In an age where we are seeing our deficits grow, where the national debt has increased, where we are paying over $170 billion a year in interest payments to do nothing to help education and health care, can you tell me where we are going to get the money to try to decrease the debt and still provide these tax cuts that benefit mostly wealthy Americans?

Mr. SNOW. Sure. You have asked me a lot of questions. I don't know that I can respond to all of them.

Chairman THOMAS. I will tell the gentleman he has 30 seconds in which to respond. I am very mindful of the clock in trying to move the Committee along.

Mr. SNOW. Well, first on Social Security, which is where you started, the—ultimately, the government's ability to pay for Social Security depends upon the capital stock of the country and on the output of the economy, not the size of the trust funds. You know, it is a pay-as-you-go system. The numbers I cited were a family of four, $40,000 and $1,000. The numbers you cited were for some different distribution that I can't recall right now, but I will just answer the question.

Mr. BECERRA. The one-fifth percent.

Chairman THOMAS. The gentleman's time has expired. We do have a transcript, and can supply the questions. We appreciate the Secretary answering the gentleman's questions. Does the gentleman from Ohio wish to inquire?

Mr. PORTMAN. Thank you, Mr. Chairman. Mr. Secretary, you have done quite well on your maiden voyage, as you called it. You have navigated the questions well, and you have given this Committee a lot of good input for us to be able to legislate responsibly, which is the purpose of these hearings.

Just quickly in response to my friend from California on the interest on the debt, of course none of us want to see us go back into deficits. When I got elected, we were paying about 20 percent of our annual budget on interest on the debt. It is going to be about

8 percent next year based on projections, because we were taking advantage of lower interest rates, interest rates being the lowest they have been in 40 years. We have to remember that about our economy, and that goes to the issue of our deficit and its impact on the economy, obviously, because our interest payments are lower because rates are lower.

As a percentage of GDP, I heard earlier people saying that this is going to be the worst ever and compare it to past years. As I look at it, looking at the data over the last 20 years, it will be a smaller percentage of GDP next year, even with all of our problems, than it has been in 12 of the last 20 years. In fact, back in the early eighties when the other party controlled this place, it was about twice of the percentage of GDP that it will be next year even with quadruple whammy that the Secretary talked about, war, recession, and emergency, and of course the impact of corporate accountability. September 11 alone—someone said earlier—$100 billion in direct costs to American taxpayers. The intangible impact no one can calculate to our economy and to the global economy.

Just quickly, Mr. Secretary, you talked about the importance of us getting back to fiscal discipline. I couldn't agree more. The way we did it in the nineties was we restrained spending, we kept it under control. I know people are anguished. They have talked earlier today about we aren't spending enough in this budget. Well, how much is enough? We are going to spend over 4 percent in this budget. I think the President is smart to keep it at that level. We should perhaps be doing even more in terms of keeping our spending under control, but that is, of course, about half of what we have been doing in Congress over the last several years.

So, the key is restraining spending. That is what happened in the nineties. That is how we got the balanced budget. That is how we got our growth back. The second part, of course, is using that to grow the economy. If you could just briefly again, Mr. Secretary, tell us how the tax package as a whole, including the dividend tax cut, stopping the double taxation of dividends, will help grow this economy.

Mr. SNOW. This tax package will help grow the economy because it will create more disposable income in the hands of consumers and not—and will reflect today a greater sense of confidence in the economy that they will have as they know that money will be coming in the years ahead. So, they will telescope into the present the ability to use tax cuts in the future that would have only been available in the future. That will lead to more spending. As spending goes up, it will lead to growth in businesses; it will lead to more investing. As small business will take advantage of the expensing provision, lower costs of equity capital will encourage people to issue more equity capital, and we will get better patterns of spending and investing in savings, will make the economy more efficient. As you make the economy more efficient, it grows, and that is good for everybody.

Mr. PORTMAN. Mr. Secretary, even those who would agree with you on that might still say, as Mr. Rangel did at the outset, gee, this is not fair, because you are shifting the burden to those who are working people as opposed to those who are investing people.

He said that this burden would shift. Payroll taxes would be used for the tax cuts.

As I add it up, about 34 percent of our revenue this year will come from payroll taxes, from Social Security and Medicare. Social Security alone will be about 22 percent of our budget, another 23 percent in health care, including Medicare and Medicaid. That is about 45 percent.

Would you say that payroll taxes are not being used for their intended purpose?

Mr. SNOW. Payroll taxes are essentially premiums on Medicare and Social Security.

Mr. PORTMAN. I would just say finally, Mr. Secretary—I don't have a whole lot of time here, unfortunately—but if you look at your overall package, including ending the double taxation of dividends, the average tax reduction ranges from about 17 percent for taxpayers with under $30,000 in income to just over 11 percent with taxpayers who are in the over $100,000 range. Because the percentage reduction is greatest for families with incomes under $50,000, those families will pay a smaller share of the total income tax burden at the end of the President's proposal, and that is something we need to keep in mind.

Conversely, those families with over $100,000 in income will receive a smaller than average percentage reduction, of course, and they are going to pay a larger share. Already, the top 1 percent pays about 37 percent of our income taxes, and maybe that is not enough. They are going to be paying a higher percentage after this is all done. The top 10 percent now pays 67 percent of our income taxes. Maybe that is not enough, but they are going to be paying a higher percentage.

So, just to get back to Mr. Rangel's point, I think we need to look at the facts.

Finally, Mr. Secretary, on your retirement savings proposals, I do hope you will look at what we have done. In the last 5 years, this Committee has been very aggressive in increasing the amount people can contribute to their retirement, simplifying the rules and allowing for portability. We would like to continue doing that.

Chairman THOMAS. I thank the gentleman. Does the gentleman from Texas, Mr. Doggett, wish to inquire?

Mr. DOGGETT. Thank you, Mr. Chairman. Mr. Secretary, I want to applaud your role as Co-Chair of the Conference Board Commission on Public Trust and Private Enterprise and specifically the recommendation that you made last month that auditors should not be in an advocacy position on items such as novel and debatable tax strategies and products that involve income tax shelters and extensive offshore partnerships or affiliates.

As you may know, I have been seeking for the last 4 years to get changes in the law to shut down abusive corporate tax shelters. Last year, Chairman Thomas adopted some of this language in some legislation he introduced to incorporate and codify the judicially known doctrine of economic substance. Tomorrow, Chairman Grassley and Ranking Member Bachus are marking up economic substance legislation that, as best I can tell, tracks pretty much near verbatim what I have been advocating.

My question to you is whether we can count on your leadership in cracking down on abusive corporate tax shelters and specifically in supporting the approach that the Senate Committee on Finance appears ready to undertake to codify the economic substance doctrine.

Mr. SNOW. Congressman, I support the economic substance doctrine. I think it makes good sense as a judicial concept. Whether it should be codified or not, I have not at this early stage of my tenure been able to give a lot of thought to. I would have some reservations, because when things get codified you lose some of the flexibility that courts or administrative agencies might have in applying these principles.

On the question of whether I will be vigorous and attentive to the issue of abusive tax shelters, absolutely, I will.

Mr. DOGGETT. Then let me ask you about something that you had reservations about. In fact, only about 11 months ago you indicated that you hoped the Republican stimulus package would not be approved by the Congress. Was there any public expression of your support for any stimulus package prior to your announcement that you would be serving as Treasury Secretary? I am talking about the interview you had down in Boca Raton with Bloomberg last February 28.

Mr. SNOW. I don't actually recall that, but I certainly have shown disinclination to support various stimulus packages in the past. I didn't support the stimulus package that was proposed shortly—or discussed, anyway—shortly after President Clinton took office.

Mr. DOGGETT. I certainly agree with you about your comments last year in Boca. So, this is the first stimulus package you have endorsed, the one you are here on today?

Mr. SNOW. Congressman, you have to refresh my recollection, because I don't really recall that interview.

Mr. DOGGETT. Well, the deficit that will result from the plan that you are embracing today is truly historic. In absolute dollar terms, this is about the largest annual deficit that we have ever had in the history of the United States, isn't it?

Mr. SNOW. As Congressman Portman pointed out, it is small relative to the size of the economy compared with a number of prior deficits. We have to keep in mind that this is a huge economy.

Mr. DOGGETT. In terms of absolute dollars, though, it is historic, and in terms of relative percentages, it is much higher than when you were concerned opposing deficits back in 1995.

Mr. SNOW. I started that process, though, Congressman, back—somebody said that I never was concerned about deficits when Republicans were in office. I remember working with President George Herbert Walker Bush on a balanced budget amendment. We were concerned about budgets back when he was President.

Mr. DOGGETT. Seeing our deadline approaching, you know that Mitch Daniels has said that these deficits and the debt associated with them are going to continue for the next 10 years; and my question to you is, isn't it obvious that with the baby-boomers beginning to make greater use of Medicare and Social Security, more of them, that if you keep piling on deficits and public debt for the next 10 years at truly historic levels that our ability to assure the

soundness of Social Security and Medicare is going to be compromised and that, further, it is equally obvious that the debt tax, the tax that we all have to pay to finance the public debt, is going to continue to go up?

Mr. SNOW. Congressman, I didn't see what OMB Director Daniels said. I don't see deficits way out into the future that way. I think this economy is going to grow at rates that are higher than we are showing in the numbers that you may have seen. It is not incorporated into the plan, the budget plan, the growth aspects of the President's proposal. It has incorporated into it the costs of the proposals. You know, if we can get a couple tenths of a point of revenue growth and get a couple tenths of a point reduction in expenditures and get a couple tenths increase in GDP, these numbers all of a sudden change dramatically, and that is what we ought to be working on.

Chairman THOMAS. The gentleman's time has expired. Does the gentleman from North Dakota wish to inquire?

Mr. POMEROY. Thank you, Mr. Chairman. Mr. Secretary, you have already proven yourself to be an articulate representative of the Administration's fiscal policies as Secretary of the Treasury. Congratulations on your performance today.

Mr. SNOW. Thank you very much.

Mr. POMEROY. You have referred earlier in your testimony this afternoon to Social Security as essentially a pay-as-you-go system. Presently, however, there is a surplus. Payroll taxes bring in more for Social Security than are spent on Social Security, is that correct?

Mr. SNOW. That is correct.

Mr. POMEROY. The balance, that cash that now comes in for Social Security, under the deficits contained in this budget, that cash will be spent on funding those government programs?

Mr. SNOW. The balances will be credited; the surplus will be credited.

Mr. POMEROY. I know there is going to be some IOUs. Mr. Secretary, I understand the IOU accounting business. The cash will be spent not on paying off the national debt, not held somewhere for future Social Security obligations. The cash will be spent to fund these other government programs, is that correct?

Mr. SNOW. It is part of the general revenues. There is an IOU, as you know, to the Treasury.

Mr. POMEROY. Right, it will be funneled into general revenues and will be spent.

Mr. SNOW. That will be honored with the full faith and credit of the United States.

Mr. POMEROY. Right. I understand that. Cash will be spent, and we will get an IOU.

Yesterday, I was visiting with a university president from North Dakota. He indicates under the very difficult fiscal constraints facing our State, like so many States, tuition increases are about inevitable. He looks at 16 percent next year, maybe 14 percent the year after, if they don't do better in the legislature than is presently anticipated. That is about a 30 percent bump in tuition over 2 years. Students are already facing in my State, as they are across the

country, record historic levels of tuition obligations. Student loan debts are the highest ever.

Now, we were able to pass—the budget plan passed last year included a deductible feature for interest paid on student loans. Does your budget continue this student loan deductibility?

Mr. SNOW. Congressman, I can't say that I know the answer to that.

Mr. POMEROY. You have some resources with you, Mr. Secretary. I will await your answer.

Mr. SNOW. I am sure Mitch Daniels would, and he will be here.

Mr. POMEROY. I will await your answer right now, Mr. Secretary. I bet one of these people will be able to tell you whether or not the student loan deductibility continues or not.

Mr. SNOW. Well, if they can, they are welcome to.

Mr. POMEROY. Mr. Secretary, it is my belief that it expires 2006 and it is not continued under your plan. In other words, the deductibility now allowed for student loan interest goes away, and it is not continued under the budget. Someone can correct me if they want. I think it is very important that we understand as tuitions go up the deductibility of interest paid by graduates struggling with those student loan obligations goes away and it will no longer be deductible.

Mr. SNOW. I will tell you what I will do, I will get you the answer and submit it for the record, because I don't know it off the top of my head.

[The information follows:]

Response: Under current law, the above-the-line deduction for higher education expenses established by the Economic Growth and Tax Relief Reconciliation Act of 2001 sunsets after 2005.

We share your concern for education. As you know, current law provides a variety of tax incentives to make attaining a higher education more affordable to students and their families. In addition to the above-the-line deduction, current law provides the Hope Scholarship Credit, the Lifetime Learning Credit, tax-free withdrawals from Coverdell Education Savings Accounts and from qualified tuition programs, tax-free redemptions of U.S. Savings Bonds used to pay higher education expenses, and a deduction for interest paid on certain student loans, among other incentives. The fiscal year 2004 budget proposals do not specifically include an extension of the above-the-line deduction for higher education expenses, which will not expire until after 2005. As we continue to work on implementation of existing provisions, we will continue to examine tax provisions relevant to higher education and to consider education provisions in the budgets for future years.

Mr. POMEROY. Okay. I am surprised your resources cannot answer that. I don't expect you in day number one——

Chairman THOMAS. I will tell the gentleman I believe it is a safe statement to say for the remainder of President Bush's term it will be deductible.

Mr. DOGGETT. That is 2 more years.

Mr. POMEROY. My belief is it goes away in 2006, and that is not contested by the Administration. You know, the retirement savings program is something I have been looking at with great interest. I care a lot about it. Obviously, those that have the hardest time saving are those making the most modest amounts of income. Last Congress we addressed something that I think needed to be addressed. We enhanced the savings incentive for those earning

modest incomes. We allowed them to save more in this tax-deductible IRA.

Now, as I understand the proposal, you are not going to allow IRAs to be tax deductible after this year, is that correct?

Mr. SNOW. The IRA, as I understand it, will continue but won't be able to be added to after this year.

Mr. POMEROY. Right. So, you can't make next year, for example, a contribution to the IRA and deduct it from the amount you would otherwise pay tax on.

Mr. SNOW. That is right. If you have an IRA, the IRA continues, though.

Mr. POMEROY. That has been the traditional incentive to those earning $50,000 or under. We added to that with a small credit. I want to give your staff just kudos for the efforts they made to get this credit online and operative. They have done a great job with that. That is going to be an even stronger tax incentive for modest incomes, and that goes away under the proposal as well.

So, as I understand it, you can't have a tax credit, you can't have a tax deductible in terms of making savings contributions, but you allow them to save greater amounts in the future.

Now, for the family that can't save because they are very scrunched on disposable income, having higher limits where they can save tax free for the future, it really is not responsive to their problems, in my opinion.

Chairman THOMAS. I thank the gentleman. The time of the gentleman has expired.

Mr. POMEROY. May he have 30 seconds to respond?

Chairman THOMAS. The gentleman's time has expired.

Mr. SNOW. The whole plan is designed to encourage savings, not discourage it.

Chairman THOMAS. Does the gentleman from Arizona wish to inquire?

Mr. HAYWORTH. Thank you, Mr. Chairman. Mr. Secretary, welcome. Day 2 on the job, hearing number one in front of the Committee on Ways and Means, and I am sure you would agree it has been a very interesting afternoon.

On the one hand, some of my colleagues saw fit to lecture you about the fiscal policy of the United States. Some of them offer very interesting revisionist histories for us. I am indebted to my friend from Ohio for helping to set the record straight. Some assume a prosecutorial role, even asking what you said and where were you on February 28 in talking to what publication.

Finally, to my friend from North Dakota, I would simply say, with Arizona State, the heart of the new Fifth Congressional District of Arizona, we welcome all those out-of-State students down to Arizona.

Mr. POMEROY. It would be nice if they could deduct the tuition they pay when they come down there.

Mr. HAYWORTH. Well, we look forward to working to continue that. Far be it for me to correct the Chairman, even to say I think that this will continue through the end of President Bush's first term. So we have gotten that all straight.

Let me view perspectively what is transpiring with what you call the centerpiece of your proposal, of the President's proposal, and that is this bold stroke about dividends.

It has been interesting at home because, as with most bold strokes, a lot of folks are very excited, some folks have questions. I was interested this morning to read on the op-ed page of my hometown newspaper a gentleman who opposed me in the last election embraced this wholeheartedly. So I thought that was good bipartisan support. However, perspectively, some questions do continue.

There have been some questions raised that tax-exempt dividends received by shareholders will increase a shareholder's AMT liability. Are excluded dividends subject to the alternative minimum tax?

Mr. SNOW. No, they will not be.

Mr. HAYWORTH. So, we can put that to rest right now?

Mr. SNOW. That can be put to the side.

Mr. HAYWORTH. Mr. Secretary, it is a challenge we all confront, and people of good will can bring different points of view to this endeavor. Rather than offering a lecture, I simply want to say we look forward to working with you in the days ahead and working with the Administration. While the President proposes and the Congress disposes, we think we will have a very productive time. So, with that, I thank you for your time and your indulgence this afternoon. I thank the Chair.

Chairman THOMAS. Does the gentleman from Kentucky wish to inquire?

Mr. LEWIS OF KENTUCKY. Yes. Thank you, Mr. Chairman. Mr. Secretary, we think and hope that the recession is over, but the unemployment rate is still high and the business investment is still weak. Do you think it will help the economy for a short-term boost or do you think it is more important to look at long-term relief, and how does the Administration proposal address this post-recession weakness in the economy?

Mr. SNOW. The proposal does both, Congressman. I think it will be a good boost for the economy in the short-term in creating about 500,000 additional jobs by the end of this year and well over 1 million by the end of next year. Its most important feature is probably it is just good economics. It makes the economy more efficient. Through the dividend proposal, it lowers the cost of equity, encourages the use of more equity, will lower debt equity ratios, will encourage companies to pay more dividends, will end the double taxation of corporate payouts and I think will have a very favorable effect on equity markets generally.

It will also put more money in people's pockets today, and it will put money in their pockets that they can count on. I think one thing that we know from economics is that there is a big difference between a temporary enhancement in your take-home pay and something you can count on for the long term. This they can count on year after year after year. That is going to change people's attitudes today I think and make them much more willing to go out and spend and buy things, and that helps this circular flow around this economy.

The expensing provision is going to help. Small business is the biggest generator of jobs. Small business comes out a big winner on this. Small business, through the expensing and through the reduction in the marginal rates, will find that small business becomes more profitable. It will have more free cash flow. As they have more free cash flow, they will put up more help wanted signs, and there will be more good jobs.

That is what this is really about. In the longer term I am confident this will put us on a better growth path so we can meet these huge obligations we have talked about for the future and these unfunded promises of the future that loom over us.

Mr. LEWIS OF KENTUCKY. What about our senior citizens? How does the President's proposal help them meet the challenges of their retirement and investments that they have?

Mr. SNOW. There are some 10 million seniors, I am told, some number like that, who are dividend recipients. Some, like my mother I mentioned earlier who is now deceased, she never had a lot of money, but that dividend was important to her. I think that will help older Americans considerably. It is surprising how many older Americans own stock and depend on dividends. So that provision will help them considerably.

Mr. LEWIS OF KENTUCKY. Thank you. Very good.

Mr. SNOW. Thank you.

Chairman THOMAS. Thank you, Mr. Secretary. I do want to note that you have been in office 1 day, and I was disappointed that you were not able to answer every question, especially those about the future, because I thought we could have gotten a really good deal here if you could tell us what is going to happen. Unfortunately, the human condition is that we hopefully will plan as best we are able for the future in order to be prepared for tomorrow and the day after.

I look ahead as we move forward in presenting the President's bill that there will be representation from Treasury during the markup. As we have broad hearings, several days of hearings, I do suggest that it would be helpful if you at least follow closely the discussions that we will be having with people, those who are in support, and I assume, people who are in opposition or offer alternatives to the President's position.

Our job is to inform ourselves to the best of our ability to make the best decision as far as the Tax Code is concerned for the American people. I know you believe that is your responsibility as well, and this Committee looks forward to working with you in the near future, and, frankly, for your entire term as Secretary of the Treasury.

Thank you very much for being with us today.

Mr. SNOW. Thank you, Mr. Chairman. Let me say I intend to be fully engaged with you and your colleagues on this important work that lies ahead of us.

Chairman THOMAS. I think you did a pretty good job for 1 day in office. There being no further business, the hearing is adjourned.

[Whereupon, at 4:20 p.m., the hearing was adjourned.]

[Questions submitted from Chairman Thomas to Mr. Snow, and his responses follow:]

QUESTION 1: Last year Treasury Under Secretary Gurule testified that "transferring the U.S. Customs Service into the Department of Homeland Security will achieve the larger objectives of the President's proposal by (1) ensuring the proper balance between security and trade facilitation, (2) limiting the size of the Federal Government, (3) ensuring accountability and coordinated policymaking, and (4) promoting the collection and analysis of all information related to homeland security." Can you tell us how the transition will take place and what steps you will take to ensure that the transfer of the Customs Service to the new Department will achieve each of these goals?

ANSWER: Treasury and Homeland Security have been working together to ensure that these goals are met make the transfer as smooth as possible. We believe that providing all necessary operational authority to Customs and retaining policy direction at Treasury for revenue issues will strike the proper balance between security and trade facilitation, prevent growth of government. Having the data collection function under Customs control ensures that information will be used for both security and revenue purposes

QUESTION 2: In crafting the reorganization legislation, Congress left the organic authority for Customs within Treasury, creating a presumption that the authority should not be delegated. Does the Department of Treasury intend to delegate any specific authority or function to the Department of Homeland Security relating to the U.S. Customs Service? Will the Department of Treasury continue to perform its oversight role over Customs functions as it has always done, and if not, what changes are contemplated? Will the Department of Treasury remain fully staffed in order to continue to perform its oversight role? What office within the Department of Treasury will be charged with the oversight of the revenue collection functions of the Customs Service?

ANSWER: The Administration is working closely with your staff to craft the appropriate delegation of this authority. We want to ensure that Customs has all necessary authority for security issues and the operational and day-to day aspects of administering the revenue functions. Certainly these are important questions and we need to attend closely to the details of the issues.

QUESTION 3: Now that the Customs Service has been transferred to the new Department of Homeland Security what proposed budget changes have been made for all of Customs' statutory functions that have been transmitted in the current budget? How will this Congress be able to verify the Administration's commitment to Customs' trade mission?

ANSWER: The President's FY '04 budget request details the proposed budgetary changes for all of Customs statutory functions. The Administration looks forward to working with Congress to ensure that the Nation's interests in Customs trade mission are met.

QUESTION 4: How will the Treasury Department insure that Customs continue to be the lead office of the collection of trade data within the new Department of Homeland Security?

ANSWER: Under the existing statutory scheme the Customs Service collects import entries, from which the bulk of trade statistics are generated. The Department of Commerce and the International Trade Commission also have important roles in trade data collection, as do the Department of Transportation, and several other agencies, depending on the nature of the import. Ensuring collection of good statistics in a manner least burdensome to the public requires an integrated government effort, an effort that the Administration intends to maintain.

QUESTION 5: What will happen to the continuing development of the new Customs computer system, the Automated Commercial Environment (ACE), during the transition to the Department of Homeland Security? What steps will be needed to join the Customs computer system with that of the other agencies?

ANSWER: The President's FY '04 budget request includes continued funding for Customs' new computer system, ACE, the Automated Commercial Environment. Part of the ACE project is the International Trade Data System or ITDS which links ACE to other agency computer systems.

QUESTION 6: The Trade and Development Act of 2000, which includes landmark reforms to improve trade relations with Africa and with countries in the Caribbean Basin region, was signed into law on May 18, 2000.

The Treasury Department has yet to issue final implementing regulations to guide U.S. businesses and trading partners who are attempting to do business under these new programs. Can you explain the delay and indicate whether the Committee should expect a similar performance with respect to implementing regulations for the Andean Trade Promotion and Drug Eradication Act, which was signed into law on August 6, 2002?

ANSWER: We expect that all three of these regulations to be issued in the very near future.

QUESTION 7: In the Homeland Security Act Congress directed that customs user fees should be strictly accounted for and used for the commercial purpose for which they are collected. I notice that in the new budget for Homeland Security there is no longer a function line showing money spent on commercial operations as in years past. What is the Administration doing to ensure a strict accountability of fees and that funding for commercial operations are not diminished?

ANSWER: The Treasury Department was not involved in the details of the budget for the Department of Homeland Security. Of course, user fees should be strictly accounted for and used only for the purposes established by law. The Administration is committed to ensuring that Customs commercial operations are fully funded in order to facilitate trade.